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**VIA ELECTRONIC FILING**

Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> Street SW  
Washington DC 20554

**RE: NOTICE OF EX-PARTE COMMUNICATION**  
***In the Matter of Federal-State Joint Board on Universal Service, et. al.,***  
**CC Dockets No. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, 02-33,**  
**95-20, 98-10 and NSD File No. L-00-72.**

Dear Ms. Dortch:

On Friday, March 10, 2006, Bob Quinn and I, both of AT&T Inc., met with Jessica Rosenworcel, legal advisor to Commissioner Copps, to discuss the Commission's open proceeding to reform the universal service fund contribution methodology. During the meeting, AT&T expressed positions consistent with its advocacy in this proceeding. Attached please find a copy of the materials used during the discussion. Pursuant to section 1.1206(b) of the Commission's rules, this letter is being filed electronically via the Commission's ECFS system.

Should you have any questions regarding this letter or the attached materials, please feel free to contact me via the means most convenient for you.

Sincerely,

/s/ Eric N. Einhorn

Attachment

CC: Jessica Rosenworcel (via electronic mail).



# Guiding Principles for Sustainable USF Reform

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- **The assessment methodology should be technologically and competitively neutral.**
- **The assessment methodology should not drive customer purchasing decisions.**
- **The assessment methodology should assess retail end user customers.**
- **The assessment methodology should accommodate technological change.**



# **Contributions should not be based on Carrier Revenues**

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- **Interstate revenues are increasingly difficult to separate from intrastate.**
  - Bundled services
  - Providers that have never been subject to jurisdictional separations
  - IP-based communications
  
- **Telecommunications revenues are increasingly difficult to separate from non-telecommunications.**
  - Bundles
  - Difficulty in classifying new services
  
- **To assess total revenues would require a statutory change and would not solve implementation problems.**



# **Contributions should not be based on a Hybrid Combination of Telephone Numbers and Carrier Revenues**

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- Hybrid imports problems with revenues-based methodology into new system, greatly diminishing value of reform.
- Additionally, the Commission would be forced to artificially determine how much to collect under a revenue approach and how much to collect based on telephone numbers.

# ICF USF Contribution Proposal - Summary

- ICF proposed to reform the existing USF contribution mechanism by adopting a numbers & connections-based methodology.

Each of the following would be assessed one “unit” of USF contribution:

- ☐ Unique Working Telephone Number
- ☐ Each residential DSL connection
- ☐ Each residential Cable Modem connection
- ☐ Any other residential, “mass-market” high-speed, non circuit-switched connection

**Other non-switched, dedicated business connections would be assessed on a unit basis using multipliers for the following capacity tiers:**

| Capacity                   | Units |
|----------------------------|-------|
| ≥ "high speed," < 1.5 Mbps | 1     |
| ≥ 1.5 Mbps, < 45 Mbps      | 5     |
| ≥ 45 Mbps, < 200 Mbps      | 40    |
| ≥ 200 Mbps                 | 100   |

# NRUF Report Is Not Adequate

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- **Use of NRUF assigned numbers for USF contribution assessment would have the effect of inflating the reporting carrier's contributions based on services provided by a non-reporting carrier.**
- **Not all providers that sell services with telephone numbers to retail end users file NRUF Reports.**
- **As such, NRUF report is an inaccurate tool to assess whether the carrier filing the report controls the number. For example, numbers ported to other carriers and numbers acquired by other carriers through Type 1 interconnection and wholesale arrangements (e.g. UNE-P and Resale) are included in NRUF reports.**

# **“Auditability” of WTNs and NACs**

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- **Auditing Working Telephone Numbers and Network Access Connections should generally be easier and more reliable than auditing revenues, but in any event should not be more difficult over all.**
- **Same general operation as current system:**
  - providers extract data from systems they establish to track assessable units and an independent third-party reviews and verifies that process.
- **More robust than current revenues based system because providers will not need to make determinations about, for example, how to allocate a bundle of services and which parts of the bundle are assessable. Reduces “garbage in” problem and missing data points.**

# “Auditability” of WTNs and NACs (cont.)

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- **The purpose of the audit would be to:**

- ☐ Validate the accuracy of self-reported data against data resident in operational databases; and
- ☐ Evaluate the internal controls in place to ensure the accuracy of reported data.

- **Effective auditing would be assisted by:**

- ☐ Clear compliance criteria, definitions, and standards in FCC rules;
- ☐ Reasonable record retention obligations for contributors and access to those records for auditors.



**Projected Per Unit USF Assessment Charge Per Month  
BASELINE**

|   |                        |
|---|------------------------|
| <b>Projected Program Cost (Annualized \$)</b> | <b>\$6,885,802,000</b> |
| <b>Assessable Units</b>                       | <b>617,674,288</b>     |
| ILEC Numbers (Assigned)                       | 308,155,000            |
| CLEC Numbers (Assigned)                       | 43,779,000             |
| Toll-free Numbers (Assigned)                  | 22,127,206             |
| Broadband Subscribers                         | 31,397,946             |
| Wireless Subscribers                          | 182,140,362            |
| Paging Numbers (Assigned)                     | 9,260,000              |
| Special Access Connections (Weighted)         | 20,814,774             |
| <b>Assessment Per Unit (\$ Per Month)</b>     | <b>\$0.93</b>          |

**Projected Per Unit USF Assessment Charge Per Month  
Baseline Without Broadband**

|   |                        |
|---|------------------------|
| <b>Projected Program Cost (Annualized \$)</b> | <b>\$6,885,802,000</b> |
| <b>Assessable Units</b>                       | <b>586,276,342</b>     |
| ILEC Numbers (Assigned)                       | 308,155,000            |
| CLEC Numbers (Assigned)                       | 43,779,000             |
| Toll-free Numbers (Assigned)                  | 22,127,206             |
| Broadband Subscribers                         | 0                      |
| Wireless Subscribers                          | 182,140,362            |
| Paging Numbers (Assigned)                     | 9,260,000              |
| Special Access Connections (Weighted)         | 20,814,774             |
| <b>Assessment Per Unit (\$ Per Month)</b>     | <b>\$0.98</b>          |

**Projected Per Unit USF Assessment Charge Per Month**  
**Baseline Without Broadband & Special Access**

|   |                        |
|---|------------------------|
| <b>Projected Program Cost (Annualized \$)</b> | <b>\$6,885,802,000</b> |
| <b>Assessable Units</b>                       | <b>565,461,568</b>     |
| ILEC Numbers (Assigned)                       | 308,155,000            |
| CLEC Numbers (Assigned)                       | 43,779,000             |
| Toll-free Numbers (Assigned)                  | 22,127,206             |
| Broadband Subscribers                         | 0                      |
| Wireless Subscribers                          | 182,140,362            |
| Paging Numbers (Assigned)                     | 9,260,000              |
| Special Access Connections (Weighted)         | 0                      |
| <b>Assessment Per Unit (\$ Per Month)</b>     | <b>\$1.01</b>          |



**Developing A Step o Federal USF Program Requirements and Contribution Factor From Published Data**

| PROGRAM TYPE                                    | 2004 Federal USF Program Cost By Quarter -- Actual |               |  |               |               | 2005 Dederal USF Program Cost By Quarter |               | Annualized: 3Qr 2004 -2Qr 2005 |
|---|--|---------------|--|---------------|---------------|--|---------------|--------------------------------|
|   | First  | Second        | Third  | Fourth        | Annualized    | First                                    | Second        |                                |
|   | (\$ Million)                                       |               |  |               |               | (\$ Million)                             |               |                                |
| High Cost Loop Support                          | \$ 292.004   | \$ 305.625    | \$ 318.224   | \$ 315.892    | \$ 1,231.745  | \$ 319.016                               | \$ 323.938    | \$ 1,277.070                   |
| Local Switching Support                         | \$ 109.617   | \$ 116.409    | \$ 120.566   | \$ 120.366    | \$ 466.958    | \$ 116.055                               | \$ 117.617    | \$ 474.604                     |
| Long Term Support                               | \$ 132.029   | \$ 142.900    | On February 26,2004, the FCC released an order that merged LTS with ICLS.. |               |               |  |               |                                |
| ICLS (MAG)                                      | \$ 114.892   | \$ 113.324    | \$ 270.209   | \$ 270.392    | \$ 768.817    | \$ 282.172                               | \$ 287.403    | \$ 1,110.176                   |
| IAS (CALLS)                                     | \$ 162.500   | \$ 162.500    | \$ 162.500   | \$ 165.952    | \$ 653.452    | \$ 186.483                               | \$ 190.748    | \$ 705.683                     |
| Forward Looking High Cost Mechanism             | \$ 60.842  | \$ 69.424     | \$ 70.800  | \$ 70.800     | \$ 271.866    | \$ 73.181                                | \$ 72.827     | \$ 287.608                     |
| Unadjusted HC Total                             | \$ 871.884   | \$ 910.182    | \$ 942.299   | \$ 943.402    | \$ 3,667.767  | \$ 976.907                               | \$ 992.533    | \$ 3,855.141                   |
| Prior Period Adjustment                         | \$ (86.468)  | \$ 8.549      | \$ (14.944)  | \$ (101.529)  | \$ (194.392)  | \$ 15.057                                | \$ 12.496     | \$ (88.920)                    |
| Interest Income                                 | \$ (0.356)   | \$ (0.352)    | \$ (0.306)   | \$ (0.909)    | \$ (1.923)    | \$ (0.341)                               | \$ (0.822)    | \$ (2.378)                     |
| Administrative Exp.                             | \$ 3.187   | \$ 3.430      | \$ 3.588   | \$ 3.575      | \$ 13.780     | \$ 10.317                                | \$ 10.931     | \$ 28.411                      |
| Adjusted HC Total                               | \$ 788.247   | \$ 921.809    | \$ 930.637   | \$ 844.539    | \$ 3,485.232  | \$ 1,001.940                             | \$ 1,015.138  | \$ 3,792.254                   |
|   |  |               |  |               |               |  |               |                                |
| Lifeline  | \$ 171.362   | \$ 166.804    | \$ 185.029   | \$ 184.587    | \$ 707.78     | \$ 183.394                               | \$ 183.162    | \$ 736.172                     |
| Toll-Limitation Support                         | \$ 1.145   | \$ 1.010      | \$ 1.353   | \$ 1.135      | \$ 4.64       | \$ 1.294                                 | \$ 1.386      | \$ 5.168                       |
| Link-Up   | \$ 8.462   | \$ 7.333      | \$ 8.394   | \$ 8.033      | \$ 32.22      | \$ 8.541                                 | \$ 9.064      | \$ 34.032                      |
| Unadjusted LI Total                             | \$ 180.969   | \$ 175.147    | \$ 194.776   | \$ 193.755    | \$ 744.65     | \$ 193.229                               | \$ 193.612    | \$ 775.372                     |
| Prior Period Adjustment                         | \$ (18.456)  | \$ 10.680     | \$ 6.766   | \$ 17.092     | \$ 16.08      | \$ 0.532                                 | \$ 12.288     | \$ 36.678                      |
| Interest Income                                 | \$ (0.155)   | \$ (0.171)    | \$ (0.147)   | \$ (0.202)    | \$ (0.68)     | \$ (0.063)                               | \$ (0.290)    | \$ (0.702)                     |
| Administrative Exp.                             | \$ 0.990   | \$ 1.044      | \$ 1.598   | \$ 1.595      | \$ 5.23       | \$ 2.193                                 | \$ 2.206      | \$ 7.592                       |
| Adjusted LI Total                               | \$ 163.348   | \$ 186.700    | \$ 202.993   | \$ 212.240    | \$ 765.281    | \$ 195.891                               | \$ 207.816    | \$ 818.940                     |
|   |  |               |  |               |               |  |               |                                |
| Unadjusted RHC Total                            | \$ 14.601  | \$ (0.488)    | \$ 12.643  | \$ 8.149      | \$ 34.905     | \$ 11.248                                | \$ 4.344      | \$ 36.384                      |
| Prior Period/Other Adjustment                   | \$ 0.061   | \$ 1.643      | \$ 1.180   | \$ 1.130      | \$ 4.014      | \$ 0.585                                 | \$ 1.750      | \$ 4.645                       |
| Adjusted RHC Total                              | \$ 14.662  | \$ 1.155      | \$ 13.823  | \$ 9.279      | \$ 38.919     | \$ 11.833                                | \$ 6.094      | \$ 41.029                      |
|   |  |               |  |               |               |  |               |                                |
| Schools & Libraries                             | \$ 562.500   | \$ 562.500    | \$ 562.500   | \$ 549.068    | \$ 2,236.568  | \$ 837.500                               | \$ 562.500    | \$ 2,511.568                   |
| Adjustment to Total                             | \$ (50.829)  | \$ (168.161)  | \$ (195.442)   | \$ (157.867)  | \$ (572.299)  | \$ (289.635)                             | \$ 14.955     | \$ (627.989)                   |
| Adjusted S&L Total                              | \$ 511.671   | \$ 394.339    | \$ 367.058   | \$ 391.201    | \$ 1,664.269  | \$ 547.865                               | \$ 577.455    | \$ 1,883.579                   |
|   |  |               |  |               |               |  |               |                                |
| Total Published Program Cost                    | \$ 1,477.928                                       | \$ 1,504.003  | \$ 1,514.511   | \$ 1,457.259  | \$ 5,953.701  | \$ 1,757.529                             | \$ 1,806.503  | \$ 6,535.802                   |
| Special Prior-Period Adjustments*               | \$ -   | \$ (200.000)  | \$ (200.000)   | \$ (150.000)  | \$ (550.000)  | \$ -                                     | \$ -          | \$ (350.000)                   |
| Program cost w/o S&L Adj.                       | \$ 1,477.928                                       | \$ 1,704.003  | \$ 1,714.511   | \$ 1,607.259  | \$ 6,503.701  | \$ 1,757.529                             | \$ 1,806.503  | \$ 6,885.802                   |
|   |  |               |  |               |               |  |               |                                |
| Published Contribution Base                     | \$ 18,894.138                                      | \$ 19,100.887 | \$ 18,707.211  | \$ 18,095.414 | \$ 74,797.650 | \$ 18,351.876                            | \$ 18,331.555 | \$ 73,486.056                  |
| Published Quarterly Factors (3 Decimal)         | 8.60%  | 8.70%         | 8.90%  | 8.90%         | 8.80%         | 10.70%                                   | 11.10%        | 9.90%                          |
| Quarterly Factors w/o Special Prior-Period Adj. | 8.60%  | 9.90%         | 10.20%   | 9.90%         | 9.70%         | 10.70%                                   | 11.10%        | 10.50%                         |

\* From time to time FCC orders USAC to lower their quarterly program cost projections by using unused S&L funds.